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NORTHERN DIST. OF TX
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2015 MAY 27 PM 4:13
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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

UNITED STATES OF AMERICA v. WILLIAM CLARENCE STEARMAN III (1)	Criminal No. ________ 3-15CR0230-P

FACTUAL RĒSUMĒ

William Clarence Stearman III, defendant, George Tomas "Tom" Rhodus, defendant's attorney, and the United States of America (the "Government"), agree as follows:

Elements - Count One
Corrupt Endeavor to Obstruct or Impede the
Due Administration of the Internal Revenue Laws
(26 U.S.C. § 7212(a))

The Government must prove each of the following elements beyond a reasonable doubt:

First: That the defendant in any way corruptly, that is, with the intent to secure an unlawful advantage or benefit either for himself or for another;

Second: endeavored, that is, knowingly and intentionally acted or made any effort;

Third: to obstruct or impede, that is hinder or prevent from progress, check, stop, retard the progress of, or make difficult, the due administration of the Internal Revenue Laws.

Stipulated Facts

From approximately April 2000, until approximately April 2012, defendant, William Clarence Stearman III (Stearman), was an avowed tax protester and non-filer, with a long and acrimonious history with the Internal Revenue Service (IRS). His last personal return was filed for tax year 1998, despite his working full time as a veterinarian owning and operating Coppell Veterinary Hospital (CVH), in Coppell, Texas, incorporated in 1980.

In 1999, some Stearman family-owned real estate was sold, yielding Stearman $153,658. About this time, Stearman became acquainted with a Texas lawyer referred to herein as "John Doe"("Doe"), who held himself out as a tax expert who had enabled many individuals to legally avoid paying federal income taxes. After that, Stearman began making frivolous arguments employing preposterous, bizarre, and patently erroneous interpretations of the common law, the Constitution of the United States, the internal revenue laws and other laws, with the intent to frustrate the collection of his income taxes by the IRS.

Between on or about April 15, 2000, and on or about April 15, 2012, Stearman intentionally failed to file income tax returns for tax years 1999 through 2010, inclusive. Sometime in the year 2001, Stearman closed his local personal bank account.

Between September 12, 2004 and June 8, 2004 the IRS sent certified letters to Stearman at the address of the CVH in Coppell, Texas, notifying Stearman of tax deficiencies assessed at $77,334 for tax year 1999, $31,538 for tax year 2000, $183,861 for tax year 2001, and $874 for tax year 2002.

In 2001, Stearman sold a personal residence for $169,635. The proceeds from the sale included a check in the amount of $20,000.00 made payable to Stearman which he cashed. The remainder of the proceeds, $149,635.68, was wired to an account in Belize.

On December 8, 2003, and August 27, 2004, Stearman filed two frivolous petitions, consolidated into one case, in the United States Tax Court. Although both petitions were drafted by Doe, they were each filed by Stearman *pro se* to delay the collection of Stearman's taxes, by appealing the tax deficiencies assessed against him by the IRS for tax years 1999 through 2002. The petitions claimed among other things, that an individual had to be in a fiduciary relationship with the United States through a specific written agreement before he or she was obligated to pay income tax.

On March 3, 2005, the Tax Court dismissed Stearman's petitions and fined Stearman $25,000.00 for filing frivolous petitions for purposes of delay. With John Doe's assistance, on March 23, 2005, Stearman, again *pro se*, appealed the judgment of the Tax Court to the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit"), advancing the same frivolous arguments advanced in the Tax Court. On January 13, 2006, the Fifth Circuit affirmed the judgment of the Tax Court and fined Stearman an additional $12,000.00 for filing a frivolous appeal, finding that Stearman "did not institute the proceedings in good faith, but to harass the collection of public revenues." Despite the heavy fines, and a direct ruling by the Fifth Circuit that the positions advanced in Stearman's Tax Court petitions were frivolous, Stearman did not seek the advice of additional tax counsel.

With Doe's clandestine participation, on February 13, 2006, Stearman filed a civil complaint, *pro se*, in the United States District Court for the Northern District of Texas, seeking 50 million dollars in damages and an injunction from and against the judicial officers, officers of the court and a docket clerk, who participated in the foregoing Tax Court and Fifth Circuit proceedings, and the United States of America, making the same frivolous arguments presented to and rejected by the Tax Court and the Fifth Circuit. On June 29, 2006, the District Court dismissed the complaint as to all defendants and denied injunctive relief. On July 10, 2006, Stearman, *pro se*, appealed the dismissal to the Fifth Circuit, which dismissed his appeal November 1, 2006. Doe assured Stearman that Stearman's claims in the Tax Court and the Fifth Circuit would be vindicated by the Supreme Court, but took no steps to legally represent Stearman or further appeal.

Stearman had generally filed corporate returns for CVH. No corporate taxes were paid because Stearman offset the corporation's income with business expenses, net operating losses, or negated small profits through losses carried forward from previous years. Assisted by Doe, and with no indication to the IRS that he was employing counsel, during tax years 2007 through 2010, Stearman engaged in obstructive conduct, including making statements to IRS revenue agents which were frivolous, and threatening them with personal lawsuits, sending frivolous correspondence to revenue officers, titling certain of his assets in nominee names, paying for personal expenditures with corporate funds and charging them to rent on the CVH tax return and deducting them as business expenses on CVH's corporate returns. Between 2007 and 2010, Stearman earned approximately $424,568, resulting in $72,726 in taxes due and owing.

Income. Stearman owned the building housing CVH. During tax years 2007 through 2010, Stearman, through CVH, paid himself "rent" at the rate of $1,000 per week, which was compatible with the market rate in Coppell, Texas, for lease space per square foot, and deducted those payments as business expenses on CVH's Forms 1120. Although Stearman closed his personal bank account because of his protest against the IRS, he maintained a business bank account for CVH. The "rent" checks to Stearman from CVH were cashed by Stearman. By paying himself in this manner and not filing personal tax returns, Stearman was able to receive income from his practice and which appeared as rent on the corporate tax return to the IRS.

In addition to income paid by CVH, Stearman received income from his 20% interest in The Stearman Family Limited Partnership. During the tax years 2007 through 2010, inclusive, said partnership's Forms K-1 filed with the IRS reported total income to Stearman of approximately $190,000.00. Distribution checks from the partnership were cashed by Stearman.

Titling personal assets in nominee names. On May 17, 2006, Stearman traded a 1989 Lincoln Mark VII titled in the name of CVH and purchased a used 2005 Lincoln Town Car, a luxury automobile, with the title in the name of CVH. On July 9, 2010, approximately seven weeks after CVH was audited by the IRS, Stearman transferred title to a 1987 Pacific Seacraft sailboat, valued between $44,000 and $50,000, from himself to SV Doctors Orders Conveyance Trust. On or about February 15, 2011, Stearman executed a warranty deed, transferring title to the property housing CVH, acquired by Stearman in 1979, to Stearman Veterinary Trust. The trusts and the documents conveying assets to said trusts were prepared by Doe.

Paying for Personal expenditures with corporate funds and deducting them as business expenses. During tax years 2007 through 2010, Stearman had several personal credit cards, including two CitiBank cards and an AT&T MasterCard. The expenses paid with these credit cards were for Stearman's personal benefit, including trips to Belize, and purchases of wine. Stearman paid the balances on the foregoing credit cards with CVH funds and cashed rent checks.

Other specific acts of obstruction of the IRS. On April 11, 2006, Stearman sent a 27-page letter, drafted by Doe, by certified United States mail, to an IRS Revenue Agent in Farmers Branch, Texas, who had earlier initiated a levy on Stearman's property for taxes owed for tax years 1999 through 2002, inclusive, advising the agent to obtain legal counsel and setting forth the identical frivolous previously presented to and rejected by the Tax Court, the Fifth Circuit, and the U.S. District Court for the Northern District of Texas.

On April 3, 2007, during an IRS examination of Stearman's personal returns for tax years 2003 through 2007, inclusive, Stearman sent a letter, drafted by Doe, by certified United States mail, to the assigned IRS Revenue Agent in Houston, Texas, claiming that Stearman was not "'a taxpayer', i.e., a fiduciary" and that the IRS was required to produce a contract proving that Stearman was a taxpayer.

On or about September 30, 2009, in a certified letter to an IRS revenue officer in Dallas, Texas, drafted by Doe, Stearman requested a due process hearing, frivolously contending that taxpayers are fiduciaries and that Stearman had no agreement with the IRS to act as a fiduciary, and threatening to file a civil suit against the revenue officer personally if the officer continued efforts to collect taxes owed by Stearman.

On or about October 8, 2009, Stearman, during an IRS examination of Stearman's personal returns for tax year 2006, sent a letter, drafted by Doe, by certified United States mail, to the assigned IRS Revenue Agent in Houston, Texas, demanding that the IRS produce a written agreement showing that Stearman was a fiduciary and that the United States was a beneficiary as proof that Stearman had any income tax liability.

On or about October 27, 2009, Stearman, during an IRS examination of Stearman's personal returns for tax years 2003 through 2007, inclusive, sent a letter, drafted by Doe, by certified United States mail, to the assigned IRS Revenue Agent in

Houston, Texas, again claiming that Stearman was not a taxpayer and demanding that the IRS produce a written, signed agreement to the contrary.

On or about June 4, 2010, Stearman, during an IRS examination of CVH for tax years 2007 through 2009, sent a note, drafted by Doe, to the assigned IRS agent claiming that the officers of CVH had no obligation to the " 'income tax' system."

On or about June 23, 2010, Stearman, in connection with an IRS collection due process hearing, involving Stearman's income tax then due and owing for tax years 2003 through 2009, inclusive, and after he was specifically warned about the consequences of raising frivolous issues, sent a letter, drafted by Doe, by certified United States mail, to the IRS settlement officer in Albuquerque, New Mexico, claiming that Stearman was not a taxpayer and continuing to demand that IRS produce a written agreement to the contrary.

On or about March 28, 2011, Stearman, during an IRS examination of CVH for tax years 2007 through 2009, inclusive, sent a letter, drafted by Doe, by certified United States mail, to the IRS examining agent in Dallas, Texas, in response to an IRS publication refuting frivolous illegal tax protester arguments hand delivered to Stearman by said agent, claimed that the positions set forth in the IRS publication only applied to taxpayers and that taxpayers were fiduciaries and that "if [Stearman] ever had an agreement to be a fiduciary for purposes of the 'income tax' system, that ended years ago."

At no time did Doe enter an appearance for Stearman before the IRS or any court.

In April 2012, when Stearman became aware that he was under criminal investigation by the IRS, he sought out competent counsel, opened a bank account in his own name, and made a substantial payment on his federal income taxes.

Stearman's tax due and owing. Stearman's gross income for tax years 2007, 2008, 2009, and 2010 is $93,093, $99,309, $136,064, and $96,102, for a total of $424,568. These gross income figures resulted in a tax due and owing of $16,916, $17,283, $21,575, and $16,952, respectively, for a total tax due and owing of $72,726.

AGREED TO AND SIGNED this 20th day of May, 2015.

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